

ELK RAPIDS DISTRICT LIBRARY
ELK RAPIDS, MICHIGAN
AUDITED FINANCIAL STATEMENTS
FEBRUARY 28, 2005

ELK RAPIDS DISTRICT LIBRARY

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Auditing Procedures Report (P.A. 2 of 1968) | 1 |
| Independent Auditor's Report | 2 - 3 |
| Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 4 - 5 |
| Management's Discussion and Analysis | 6 - 8 |
| Basic Financial Statements: | |
| Government-wide Financial Statements | |
| Statement of Net Assets | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements | |
| Balance Sheet | 11 |
| Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets | 12 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances | 13 - 14 |
| Reconciliation of the Statement of Revenue, Expenditure, and Changes to Fund Balances of the Governmental Funds to the Statement of Activities | 15 |
| Notes to the Financial Statements | 16 - 23 |
| Required Supplemental Information (Except MD&A) | |
| Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund | 24 - 25 |

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|-------------------------------|--|-------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Elk Rapids District Library | County Antrim |
| Audit Date 2/28/05 | Opinion Date 7/6/05 | Date Accountant Report Submitted to State: 7/15/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|------------------------------|--------------------|-----------------------|
| Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C. | | | |
| Street Address 928 S. Garfield Ave. Ste. 3 | City Traverse City | State MI | ZIP 49686 |
| Accountant Signature Kalcher, Vanderwal & Torrey, P.C. | | | Date 7/6/05 |

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

July 6, 2005

Board of Directors
Elk Rapids District Library
Elk Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of Elk Rapids District Library as of and for the year ended February 28, 2005, which collectively comprise Elk Rapids District Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Elk Rapids District Library management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Elk Rapids District Library as of February 28, 2005 and the respective changes in financial position, and respective budgetary comparison for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations, as of March 1, 2004.

INDEPENDENT AUDITOR'S REPORT Continued

In accordance with *Government Auditing Standards*, we have also issued a report dated July 6, 2005 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

KALCHER, VANSDORF & TOLLEY, P.C.

Certified Public Accountants

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

July 6, 2005

Board of Directors
Elk Rapids District Library
Elk Rapids, Michigan 49686

We have audited the financial statements of Elk Rapids District Library, as of and for the year ended February 28, 2005, and have issued our report thereon dated July 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Elk Rapids District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

The Library was in noncompliance with its operating budget for the general fund.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elk Rapids District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low

Board of Directors
Elk Rapids Library
July 6, 2005
Page (2)

level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Directors and management of the Library and is not intended to be and should not be used by anyone other than these specified parties.

KENSE, VANSEAR 'TONY' A.C.

Certified Public Accountants

ELK RAPIDS DISTRICT LIBRARY
LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR MARCH 2004-FEBRUARY 2005

The MD&A is intended to serve as an overview analysis
of the financial condition and operating results of the library.

Please direct your questions regarding this report to:

Anna LaRue, Library Director
Elk Rapids District Library
300 Isle of Pines, P. O. Box 337
Elk Rapids, Michigan 49629
(231) 264-9979

ELK RAPIDS DISTRICT LIBRARY
MANAGEMENT DISCUSSION AND ANALYSIS FY 2004-5

Relationship of Financial Statements

The basic financial statements contained herein include information that presents two different views of the Library using the modified-accrual and full accrual methods.

The individual fund balance sheet/statement of net assets and liabilities and the individual fund statement of revenue, expenditures and changes in fund balance include information about the Library's General Fund under the modified-accrual method.

The modified-accrual method focuses on current financial resources. The full accrual method focuses on long-term economic resources and presents a statement of not only how services were financed in the short term, but also what remains for future spending. Under the former system, capital outlay is an expense. Under the latter system, capital outlay is capitalized as an asset, resulting in a statement of more net profit.

As this is the first year of the Library's management discussion and analysis report, this year's report does not show comparative data to previous years. In future years, the report will include this information. This is consistent with the Government Accounting Standards Board Statement Number 34.

The Library as a Whole

The Library's net revenue increased by \$15,913 over the previous fiscal year. The Library's primary source of revenue is provided from the millage of .045 mills assessed from the Library District. The millage provided approximately 78% of the year's revenue. Other major sources of revenue included penal fines and State Aid, which provided about 12% of the yearly revenue; all other sources provided approximately 10%. The Library became eligible for State Aid again this fiscal year due to our millage revenue increasing our income enough to meet State Aid requirements.

Salaries and benefits account for approximately 58% of the budget. The total of \$96,680 spent in the fiscal year 2004-5 is up from the previous year in part due to the introduction of Monday hours in June 2003, causing increased staffing costs for the full year of 2004-5, as opposed to 9 months of FY 2003-4. The Board also instituted a 403b retirement plan for the director in January 2005, with a 5% salary contribution. The amount this fiscal year was minimal (\$275), but in future years it will of course be larger.

The largest non-salary related expenditures are for the collection expenditures on books, periodicals and audio-visual materials. These amount to approximately 14% of the budget.

The Library Funds

The Library uses a General Fund to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library.

The Library also has a separate Building Improvement Fund which is designated for special projects.

The Library's Budgetary Highlights

Over the course of the year, the Library Board of Trustees amended the General Fund's budget to address unplanned needs that occurred during the year.

Building Improvement funds were used for upgrading lighting fixtures throughout the building and creating a new lower level meeting room.

Library expenditures for the year were approximately 80% of budgeted. This was primarily due to the postponement of two major projects: new siding and furnace replacements.

Capital Assets and Long Term Debt Activity

At the end of the fiscal year, the Library had \$846,291 invested in furniture, equipment, books, and audio-visual materials. The Library has a long-term lease with the Village of Elk Rapids for use of the library building, with annual lease payments of one dollar.

The Library's long-term debt activity consists of accumulated compensation employee absences (sick leave and vacation days) for the Director. Compensated absences account for \$2,564 of the fiscal year's long-term debt activity.

Next Year's Anticipated Budget Factors

The major influences anticipated for next year's budget are to proceed with the siding and furnace projects which were postponed from the previous year.

**ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF NET ASSETS
FEBRUARY 28, 2005**

ASSETS

Current Assets

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 174,938 |
| Prepaid expenses | 1,138 |
| Total Current Assets | <u>\$ 176,076</u> |

Noncurrent Assets

| | |
|---|-------------------|
| Capital assets | \$ 846,291 |
| Less: Accumulated depreciation and amortization | (363,773) |
| Total Noncurrent Assets | <u>\$ 482,518</u> |

| | |
|---------------------|--------------------------|
| Total Assets | <u><u>\$ 658,594</u></u> |
|---------------------|--------------------------|

LIABILITIES

Current Liabilities

| | |
|------------------------------|-----------------|
| Accounts payable | \$ 590 |
| Employment taxes payable | 2,078 |
| Accrued salaries and wages | 641 |
| Accrued compensated absences | 2,059 |
| Total Current Liabilities | <u>\$ 5,368</u> |

Noncurrent Liabilities

| | |
|--|------------------------|
| Noncurrent portion of accrued compensated absences | <u>\$ 2,564</u> |
| Total Liabilities | <u><u>\$ 7,932</u></u> |

NET ASSETS

| | |
|----------------------------|--------------------------|
| Invested in capital assets | \$ 482,518 |
| Restricted for: | |
| Building improvements | 3,353 |
| Unrestricted | <u>164,791</u> |
| Total Net Assets | <u><u>\$ 650,662</u></u> |

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2005**

| | | | | Governmental Activities |
|--|-----------------|---------------------------------|---------------------------------------|---|
| | | | | Net (Expense) |
| | | | Operating Grants/ Contributions | Revenue and Changes in Net Assets |
| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Charges for Services</u> | | |
| Governmental activities: | | | | |
| Library services | \$ 184,303 | \$ 5,667 | \$ 11,442 | \$ (167,194) |
| General Revenues: | | | | |
| Intergovernmental: | | | | |
| Property taxes levied for general purposes | | | | \$ 161,732 |
| State aid | | | | 7,042 |
| Penal fines | | | | 17,774 |
| Interest Income | | | | 1,659 |
| Miscellaneous | | | | 1,976 |
| Total General Revenues | | | | <u>\$ 190,183</u> |
| Change in Net Assets | | | | <u>\$ 22,989</u> |
| Net assets - beginning of year | | | | \$ 629,005 |
| Prior period adjustment - Note 8 | | | | <u>(1,332)</u> |
| Net assets - beginning of year - restated | | | | <u>\$ 627,673</u> |
| Net Assets - End of Year | | | | <u>\$ 650,662</u> |

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
FEBRUARY 28, 2005**

| | General Fund | Building Improvement Fund | Totals Governmental Funds |
|--------------------------------------|-------------------------|--|--|
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 167,393 | \$ 7,545 | \$ 174,938 |
| Due from Building Improvement Fund | 4,192 | - | 4,192 |
| Prepaid expenses | 1,138 | - | 1,138 |
| Total Assets | <u>\$ 172,723</u> | <u>\$ 7,545</u> | <u>\$ 180,268</u> |
| <u>Liabilities and Equity</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 590 | \$ - | \$ 590 |
| Due to General Fund | - | 4,192 | 4,192 |
| Employment taxes payable | 2,078 | - | 2,078 |
| Accrued salaries and wages | 641 | - | 641 |
| Accrued compensated absences | 2,059 | - | 2,059 |
| Total Liabilities | <u>\$ 5,368</u> | <u>\$ 4,192</u> | <u>\$ 9,560</u> |
| Fund Balance | | | |
| Reserved for public improvements | \$ - | \$ 3,353 | \$ 3,353 |
| Reserved for Board purposes | 5,000 | - | 5,000 |
| Unreserved | 162,355 | - | 162,355 |
| Total fund equity | <u>\$ 167,355</u> | <u>\$ 3,353</u> | <u>\$ 170,708</u> |
| Total Liabilities and Fund Equity | <u>\$ 172,723</u> | <u>\$ 7,545</u> | <u>\$ 180,268</u> |

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

Fund Balance - Total governmental funds \$ 170,708

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the General Fund:

| | | |
|--------------------------------|------------------|---------|
| Governmental capital assets | \$ 846,291 | |
| Less: accumulated depreciation | <u>(363,773)</u> | 482,518 |

Long-term obligations are not due and payable in the current
period and are not reported in the governmental funds:

| | | |
|---|--|----------------|
| Long-term portion of compensated absences | | <u>(2,564)</u> |
|---|--|----------------|

| | | |
|--------------------------------------|--|--------------------------|
| Net Assets - Governmental Activities | | <u><u>\$ 650,662</u></u> |
|--------------------------------------|--|--------------------------|

The accompanying notes are an integral part of these financial statements.

ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005
(Page 1 of 2)

| <u>Revenues</u> | <u>General Fund</u> | <u>Building Improvement Fund</u> | <u>Total Governmental Funds</u> |
|-------------------------------------|----------------------------|---|--|
| Intergovernmental | | | |
| - Elk Rapids Township | \$ 70,815 | \$ - | \$ 70,815 |
| - Milton Township | 90,917 | - | 90,917 |
| - State Aid | 7,042 | - | 7,042 |
| - Penal Fines | 17,774 | - | 17,774 |
| Contract Fees - Torch Lake Township | 3,000 | - | 3,000 |
| Book Fines | 1,415 | - | 1,415 |
| Replacement card | 111 | - | 111 |
| Copier Fees | 406 | - | 406 |
| Interest - bank account | 1,538 | 121 | 1,659 |
| ILL Fees | 166 | - | 166 |
| Donations | 6,562 | 4,530 | 11,092 |
| Note cards | 18 | - | 18 |
| Non-resident Fees | 551 | - | 551 |
| Grant Income | - | - | - |
| Transfer from Fund Equity | - | - | - |
| Miscellaneous Income | 1,976 | - | 1,976 |
| Total Revenues | \$ 202,291 | \$ 4,651 | \$ 206,942 |
| <u>Expenditures</u> | | | |
| Supplies | | | |
| Library | \$ 2,091 | \$ - | \$ 2,091 |
| Office | 1,077 | - | 1,077 |
| Cleaning | 869 | - | 869 |
| Other | 48 | - | 48 |
| Books and Audio Tapes | 16,619 | - | 16,619 |
| Rental Books and Tapes | 6,558 | - | 6,558 |
| Periodicals | 3,094 | - | 3,094 |
| Insurance: | | | |
| General | 2,939 | - | 2,939 |
| Workers Comp | 177 | - | 177 |
| Utilities: | | | |
| Water | 435 | - | 435 |
| Natural Gas | 2,057 | - | 2,057 |
| Telephone | 1,715 | - | 1,715 |

The accompanying notes are an integral part of these financial statements.

ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005
(Page 2 Of 2)

| <u>Expenditures (continued)</u> | <u>General Fund</u> | <u>Building Improvements Fund</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| Accounting and Legal | 2,620 | - | 2,620 |
| Contracts/MMLL | 2,927 | - | 2,927 |
| Technical Support | 5,727 | - | 5,727 |
| Postage | 1,074 | - | 1,074 |
| Printing: | | | |
| Publicity | 139 | - | 139 |
| Programs: | | | |
| Summer Reading | 863 | - | 863 |
| Volunteers | 321 | - | 321 |
| Board of Trustees | 426 | - | 426 |
| Adults | 100 | - | 100 |
| Mileage | 114 | - | 114 |
| Maintenance: | | | |
| Building Facilities | 4,947 | - | 4,947 |
| Capital Outlay: | | | |
| Furniture | 2,568 | - | 2,568 |
| Other | 6,548 | - | 6,548 |
| Equipment Lease Expense | 1,048 | - | 1,048 |
| Education | 250 | - | 250 |
| Payroll: | | | |
| FICA | 5,131 | - | 5,131 |
| Medicare | 1,200 | - | 1,200 |
| Gross | 84,124 | - | 84,124 |
| Pension | 275 | - | 275 |
| Health Insurance | 5,951 | - | 5,951 |
| Miscellaneous | 1,853 | - | 1,853 |
| Building Improvements: | | | |
| Improvements | - | 27,363 | 27,363 |
| Bank Charges | - | 15 | 15 |
| Total Expenditures | <u>\$ 165,885</u> | <u>\$ 27,378</u> | <u>\$ 193,263</u> |
| <u>Excess (Deficiency) Revenue Over Expenditures</u> | <u>\$ 36,406</u> | <u>\$ (22,727)</u> | <u>\$ 13,679</u> |
| Fund Balance - Beginning of Period | \$ 132,281 | \$ 26,080 | \$ 158,361 |
| Prior Period Adjustment - Note 8 | <u>(1,332)</u> | <u>-</u> | <u>(1,332)</u> |
| Fund Balance - Beginning of Period - Restated | <u>\$ 130,949</u> | <u>\$ 26,080</u> | <u>\$ 157,029</u> |
| <u>Fund Balance - End of Period</u> | <u>\$ 167,355</u> | <u>\$ 3,353</u> | <u>\$ 170,708</u> |

The accompanying notes are an integral part of these financial statements.

ELK RAPIDS DISTRICT LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005

| | | |
|--|-----------------|-------------------------|
| Net change in fund balances - total governmental funds | | \$ 13,679 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives. | | |
| Expenditures for resource collection | \$ 20,605 | |
| Expenditures for furniture, fixtures and equipment | 4,117 | |
| Expenditures for Leasehold improvements | 32,363 | |
| Less: current year depreciation | <u>(47,560)</u> | 9,525 |
| Current year additional long-term liability portion of accrued compensated absences is not reported in the governmental funds | | (565) |
| In-kind donations for capital assets are not recorded in the governmental funds if they are held for use | | <u>350</u> |
| Change in net assets of governmental activities | | <u><u>\$ 22,989</u></u> |

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005**

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Elk Rapids District Library (the Library) was organized during 1939. The Library serves primarily the residents of the Village of Elk Rapids, Elk Rapids Township, Milton Township and Torch Lake Township, Michigan. The Library operates under an appointed Board of Directors consisting of eight members.

The criteria established for determining the various governmental organizations to be included in the Library's financial statements include oversight responsibility, scope of public service and special financing relationships. Accordingly, the financial statements of the Library contain all Library funds that are controlled by or dependent upon the Library's executive branch.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both the Library as a Whole and its individual fund financial statements.

Government-Wide Financial Statements

The Library's Government Wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The balance sheet includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in two parts; invested in capital assets and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Amounts reported as program revenue include charges to patrons for the use of various Library assets and replacement, service, and damage fees.

Fund Financial Statements

The Library's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes and other intergovernmental revenues.

Building Improvements Fund - This fund is used to account for major additions to the current physical plant and other major acquisitions. Revenues are derived from general donations specifically earmarked for building improvements.

Accounting Change - Effective March 1, 2004, the Library implemented the provisions of *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34)*, along with all related statements and interpretations. Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

1. A management's Discussion and Analysis (MD&A) section providing analysis of the Library's overall financial position and results of operations has been included.
2. Library-wide financial statements (Statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided.
3. The fund financial statements focus on major funds rather than fund types.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005**

Note 1 - Summary of Significant Accounting Policies (continued)

Budgets and Budget Accounting

The Library adopts a budget for its governmental type fund as required by Public Act 621 of the State of Michigan. The Library follows these procedures in establishing the budget as reflected in the financial statements:

1. In November or December, the Library Board prepares a preliminary budget for the ensuing fiscal year.
2. During February, the budget is legally enacted through passage of a resolution. Amendments to the budget can be made during the fiscal year, if necessary, by a simple majority vote of the Library Board.
3. The budget is adopted on a basis consistent with the modified accrual method of accounting.

The Library adopted its budget for the year ended February 28, 2005 at its February, 2004 meeting. The last amendment to the budget was made on February 10, 2005. A statement of revenues and expenditures compared to budget for the year is included on pages 24 and 25.

All funds have positive fund balances at February 28, 2005.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. During the year ended February 28, 2005, the Library incurred expenditures in excess of the amount budgeted as follows:

| | <u>Budget</u> | <u>Actual</u> | <u>Over Expended</u> |
|------------------------|---------------|---------------|--------------------------|
| For the General Fund: | | | |
| Capital outlay - other | \$ 5,200 | \$ 6,548 | \$ 1,348 |

Encumbrance System

The Library does not use an encumbrance system.

Cash and Cash Equivalents

For the purposes of the balance sheet classification, the Library considers all money market accounts and certificates of deposits with maturities of three months or less when purchased to be cash equivalents.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005**

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Deposits

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the Library or by its agent in the Library's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Library's name.

Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, \$ 76,428 of the Library's cash deposits are classified as Category 3, and the remainder is classified as Category 1.

Capital Assets - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Leasehold improvements, furniture and equipment, and library books, periodicals, and videos are depreciated using the straight-line method over the following lives:

| | |
|---|---------------|
| Leasehold improvements | 20 - 40 years |
| Furniture and equipment | 5 - 30 years |
| Library books and audiovisual materials | 6 years |

Compensated Absences

The Library Director may accrue up to 160 hours of annual leave time. These hours can be carried into the following year. These types of compensated absences are typically used for vacation purposes. Sick time is earned at a rate of 5 days per year and may be accumulated.

Property Taxes

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls on March 1. The total tax levy was based on a millage rate of .45 and total State Taxable Valuation of approximately \$ 371,469,825.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005**

Note 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

Note 2 - Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act 196, Public Acts of 1998 (effective December 30, 1998), states the Library, by resolution, may authorize the Chief Fiscal Officer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the Act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States Government or Federal Agency obligation repurchase agreements
- e. In bankers' acceptances of United States banks.
- f. Obligations of the State of Michigan or any or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686.54 Stat. 739, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967 PA 7, MCL 124.501 to 124.512.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005**

Note 2 - Legal or Contractual Provisions for Deposits and Investments (continued)

- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.11 to 129.118.
- j. Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Certain other restrictions also apply including a requirement for the Board of Directors to formally adopt an Investment Policy which includes specified matters.

Note 3 - Capital Assets

Capital asset activity of the Library was as follows:

| | Balance March 1, 2004 | Additions | Adjustments and Deletions | Balance February 28, 2005 |
|--|--------------------------|------------------|---------------------------------|---------------------------------|
| Capital Assets: | | | | |
| Leasehold improvements | \$ 403,205 | \$ 32,363 | \$ - | \$ 435,568 |
| Furniture and equipment | 129,045 | 4,466 | 2,766 | 136,277 |
| Library collection | 248,987 | 20,605 | 4,854 | 274,446 |
| Total | <u>\$ 781,237</u> | <u>\$ 57,434</u> | <u>\$ 7,620</u> | <u>\$ 846,291</u> |
| Accumulated depreciation and amortization | | | | |
| Leasehold improvements | \$ 69,986 | \$ 10,710 | \$ - | \$ 80,696 |
| Furniture and Equipment | 50,792 | 7,818 | - | 58,610 |
| Library collection | 195,435 | 29,032 | - | 224,467 |
| Totals | <u>\$ 316,213</u> | <u>\$ 47,560</u> | <u>\$ -</u> | <u>\$ 363,773</u> |

During the 2004/2005 fiscal year, adjustments were made to the previous year's inventory schedule relating to furniture and equipment. Various cost records were updated and previously unrecognized assets were added to the schedule. These adjustments are reflected in the adjustments and deletions column above. The total adjustment for furniture and fixtures was \$ 2,766.

Also during the 2004/2005 fiscal year, adjustments were made to the software program which tracks the activity and cost records of the collection. The net amount of the adjustment is reflected in the adjustments and deletions column. The total adjustment amounted to \$ 4,854.

ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

Note 3 – Capital Assets (continued)

Depreciation and amortization for the year ended February 28, 2005 amounted to \$ 47,560. The Library has only one program and therefore there is no allocation necessary for the Statement of Activities.

Note 4 - Commitments

The Library has entered into a lease with the Village of Elk Rapids on July 20, 1998 for the use of premises located at 300 Noble, Elk Rapids, Michigan (commonly known as the "Island House"). The lease calls for annual lease payments of one dollar (\$ 1.00) and other good and valuable consideration. The term of the lease is for forty (40) years and does not provide for automatic renewal or extension of the lease; but the parties may, on a voluntary basis, agree to extend or renew the lease upon such terms and provisions as shall be negotiated in the future.

The Library has entered into a non-cancelable operating lease for the use of a Xerox copier/printer/scanner. The lease began on August 12, 2002 and requires sixty (60) monthly payments of \$ 59.16. The lease expense for the fiscal year ended February 28, 2005 was \$ 1,048. Remaining lease obligations are as follows:

| | |
|---------|-----------------|
| 2005-06 | \$ 710 |
| 2006-07 | 710 |
| 2007-08 | <u>396</u> |
| | <u>\$ 1,816</u> |

Note 5 - Risk Management

The Library carries insurance coverage for property damage, liability, wrongful acts and crime claims. Also, the Library has purchased from a commercial carrier worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 6 - Fund Balance Designations

The Library has established a reserve for future unemployment costs in that they are a reimbursing employer with the Michigan Unemployment Security Commission. The District Library only pays after someone has filed a claim for unemployment compensation. No additional accrual was made during the fiscal year as the current reserve of \$ 5,000 appears to be adequate to handle potential claims.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005**

Note 7 – Deferred Compensation Plan

During the 2004/2005 fiscal year, the Board instituted a 403(b) retirement plan for the Library director. The plan is administered by Capital Bank and Trust Company who has designated Prime Vest Financial Services as its agent. The plan allows the director to defer a portion of her salary until future years. The Library has elected to contribute 5% of eligible compensation to this plan. Total Library contributions were \$ 275 for the year ended February 28, 2005.

All amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries.

Note 8 – Prior Period Adjustment

Beginning net assets and unreserved fund balance have been adjusted for previous years' unrecorded compensated absence liabilities. The beginning unreserved fund balance reflects an adjustment of \$ 1,332 which accounts for the current amount of the liability as of February 29, 2004. Previous years' net income would have been overstated by the amount above.

Note 9 - Long Term-Debt

Summary of Long-Term Debt Transactions:

| | Beginning Balance 3/1/04 | Additions | Ending Balance 2/28/05 |
|----------------------|--------------------------------|-----------|------------------------------|
| Compensated absences | \$ 1,999 | \$ 565 | \$ 2,564 |

ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2005
(Page 1 of 2)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance (Unfavorable) Favorable</u> |
|-------------------------------------|----------------------------|-------------------------|-------------------|---|
| <u>Revenues</u> | | | | |
| Intergovernmental | | | | |
| - Elk Rapids Township | \$ 71,700 | \$ 70,747 | \$ 70,815 | \$ 68 |
| - Milton Township | 90,900 | 90,916 | 90,917 | 1 |
| - State Aid | - | 7,041 | 7,042 | 1 |
| - Penal Fines | 17,000 | 17,774 | 17,774 | - |
| Contract Fees - Torch Lake Township | 2,000 | 3,000 | 3,000 | - |
| Book Fines | 600 | 1,258 | 1,415 | 157 |
| Replacement card | 100 | 102 | 111 | 9 |
| Copier Fees | 200 | 333 | 406 | 73 |
| Interest - bank account | 1,500 | 1,580 | 1,538 | (42) |
| ILL Fees | 100 | 153 | 166 | 13 |
| Donations | 4,000 | 10,678 | 6,562 | (4,116) |
| Note cards | 100 | 18 | 18 | - |
| Non-resident Fees | 250 | 526 | 551 | 25 |
| Transfer from Fund Equity | 2,500 | - | - | - |
| Miscellaneous Income | 700 | 1,744 | 1,976 | 232 |
| Total Revenues | <u>\$ 191,650</u> | <u>\$ 205,870</u> | <u>\$ 202,291</u> | <u>\$ (3,579)</u> |
| <u>Expenditures</u> | | | | |
| Supplies | | | | |
| Library | \$ 3,000 | \$ 3,260 | \$ 2,091 | \$ 1,169 |
| Office | 2,000 | 1,321 | 1,077 | 244 |
| Cleaning | 1,000 | 965 | 869 | 96 |
| Other | 100 | 50 | 48 | 2 |
| Books and Audio Tapes | 25,000 | 18,700 | 16,619 | 2,081 |
| Rental Books and Tapes | 7,200 | 6,593 | 6,558 | 35 |
| Periodicals | 3,700 | 3,200 | 3,094 | 106 |
| Insurance: | | | | |
| General | 3,500 | 2,948 | 2,939 | 9 |
| Workers Comp | 300 | 265 | 177 | 88 |
| Utilities: | | | | |
| Water | 500 | 450 | 435 | 15 |
| Natural Gas | 3,800 | 3,000 | 2,057 | 943 |
| Telephone | 2,000 | 1,756 | 1,715 | 41 |
| Internet Service | 500 | - | - | - |

ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2005
(Page 2 Of 2)

| <u>Expenditures (continued)</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance (Unfavorable) Favorable</u> |
|---|----------------------------|--------------------------|--------------------------|---|
| Accounting and Legal | 2,500 | 2,620 | 2,620 | - |
| Contracts/MMLL | 3,500 | 2,928 | 2,927 | 1 |
| Technical Support | 5,500 | 5,727 | 5,727 | - |
| Postage | 1,200 | 1,120 | 1,074 | 46 |
| Printing: | | | | |
| Publicity | 300 | 150 | 139 | 11 |
| Other | 300 | - | - | - |
| Programs: | | | | |
| Summer Reading | 1,500 | 900 | 863 | 37 |
| Volunteers | 400 | 322 | 321 | 1 |
| Board of Trustees | 500 | 426 | 426 | - |
| Adult | 1,000 | 100 | 100 | - |
| Mileage | 500 | 150 | 114 | 36 |
| Maintenance: | | | | |
| Building Facilities | 8,000 | 5,200 | 4,947 | 253 |
| Capital Outlay: | | | | |
| Technology | 2,000 | 280 | - | 280 |
| Furniture | 1,000 | 2,570 | 2,568 | 2 |
| Other | 4,000 | 5,200 | 6,548 | (1,348) |
| Equipment Lease Expense | 1,200 | 1,300 | 1,048 | 252 |
| Education | 1,000 | 250 | 250 | - |
| Payroll: | | | | |
| FICA | 5,600 | 5,219 | 5,131 | 88 |
| Medicare | 1,350 | 1,230 | 1,200 | 30 |
| Gross | 88,200 | 84,500 | 84,124 | 376 |
| Pension | - | 350 | 275 | 75 |
| Health Insurance | 7,500 | 5,952 | 5,951 | 1 |
| Miscellaneous | 2,000 | 1,900 | 1,853 | 47 |
| Contingency | - | 34,968 | - | 34,968 |
| Total Expenditures | <u>\$ 191,650</u> | <u>\$ 205,870</u> | <u>\$ 165,885</u> | <u>\$ 39,985</u> |
| <u>Excess (Deficiency) Revenue Over Expenditures</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,406</u> | <u>\$ 36,406</u> |
| Fund Balance - Beginning of Period | \$ 132,281 | \$ 132,281 | \$ 132,281 | \$ - |
| Prior Period Adjustment - Note 8 | (1,332) | (1,332) | (1,332) | - |
| Fund Balance - Beginning of Period - Restated | <u>\$ 130,949</u> | <u>\$ 130,949</u> | <u>\$ 130,949</u> | <u>-</u> |
| <u>Fund Balance - End of Period</u> | <u><u>\$ 132,281</u></u> | <u><u>\$ 132,281</u></u> | <u><u>\$ 167,355</u></u> | <u><u>\$ 36,406</u></u> |

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

July 6, 2005

Board of Directors
Elk Rapids District Library
Elk Rapids, Michigan

In planning and performing our audit of the financial statements of Elk Rapids District Library for the year ended February 28, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Although we did not find any material weaknesses to report, we do have some suggestions for improving your financial accounting system in future years.

Finding

The software system used to account for the cost of the Library's resource collection has been producing inconsistent results in reporting the total costs, acquisitions, and dispositions of various collection items. These inconsistencies may, in the future cause the Library to have materially inaccurate reports as to the total cost and activity within the collection. This issue was identified as a result of both the February 29, 2004 and February 28, 2005 audits.

Recommendations

The cause for these inconsistencies needs to be identified and corrected by the software writer. It is imperative that the Library continue to monitor the NuGen Software as it relates to its accounting function. This should be an area of concern of the Board of Directors and the Library management.

We want to thank the Library staff and Board for all their assistance during the audit. We would be happy to help, in any way, with the implementation of the aforementioned recommendations.

KALCHER, VANDERWAL & TORREY, P.C.

Certified Public Accountants